

NORTH CAROLINA EDUCATION LOTTERY
PROFESSIONAL ADVERTISING AND RELATED SERVICES
QUESTIONS AND ANSWERS

1. (a) Will the firm awarded the advertising contract oversee Lottery advertising?

No, the Successful Vendor will work at the direction of the NCEL.

- (b) If so, should the State's radio and television stations contact that firm to become advertisers once that contract has been awarded?

Yes, the State's radio and television stations will contact the Successful Vendor to become advertisers for the NCEL.

2. Will there be an additional RFP to which radio and television stations should respond?

No. Any procurement for live broadcasts of online game drawings will be released in the future.

3. Can you tell me if there will be a separate RFP for the Public Relations/Public Affairs portion of the NCEL account or are all duties incorporated into this RFP?

No, the duties will be handled by the NCEL's Corporate Communications Department.

4. If those disciplines are included in this RFP, can an agency submit for those portions of the business only?

No.

5. If we are to avoid contact with the Evaluation Committee, we need to know who they are. Several may be from outside the NCEL staff and Commissioners. Please identify.

The primary evaluation committee members are Lou Ann Russell, NCEL Deputy Executive Director, Marketing/Advertising; Alice Garland, NCEL Deputy Executive Director, Legislative/Corporate Communications; and Sam Hammett, Deputy Executive Director, Sales. Additional legal and financial support personnel will be added and announced in the future.

6. In which section do the Affidavits belong? The Cost Proposal or the main proposal?

The main Proposal.

7. 1/2" VHS tapes have been specified for broadcast creative samples. Will DVDs be accepted also?

Yes.

8. (a) On page 14, #4 of the Request for Proposal, Can you confirm the \$1.9 is the budget for April 5th through June 30th?

Yes, this is the approximate budget.

(b) Does the \$1.9 million budget include media, agency fees and production dollars?

Yes.

9. Is the agency completely responsible for allocating the media budget among North Carolina DMAs or will the NCEL participate in that (perhaps even providing a formula)?

The NCEL will participate in all planning but will rely on the Successful Vendor and its expertise in media in North Carolina, and will expect the Successful Vendor to provide a media plan, subject to the NCEL's approval, to effectively meet the NCEL's objectives.

10. You state that the vendor should provide all costs associated for any personnel to attend any NCEL-related activities, including conferences, sales meetings and retailer visits. (Page 16, j)) Would you also like travel costs for creative production (attending TV, radio and print production sessions) to be included in the agency fee or charged on a project-by-project basis within the estimates of each job?

Travel costs for Successful Vendor personnel for productions that occur in North Carolina will be covered by the fixed percentage fee paid to the Successful Vendor. TV shoots, radio sessions and printing projects will typically be handled in North Carolina, except for rare occurrences.

11. There's an industry standard for TV post-buys. Assuming that you want a post-buy analysis for radio each month, what is the methodology that is expected? (Page 16, l), iii) and iv))

At this time, no post-buy analysis will be required for radio buys.

12. Media billings by medium during 2005 are requested. Is this for the entire U.S. or just N.C.?

The list of media indicating total media dollars placed by the Vendor is for the entire United States.

13. Will all media buys (in detail) require approval prior to purchase?

Yes.

14. (a) Will someone from NCEL be assigned to be available around the clock to approve make goods given the unpredictable nature of when they arise and the frequent need for a quick approval?

Yes.

(b) Will there be stated criteria?

A procedure for handling make goods will be provided by the NCEL.

15. Will budgets be provided for the entire state and allocations recommended by the agency?

The NCEL will provide a budget in its entirety for the Successful Vendor.

16. (a) What are the mandatory criteria to determine how much each area receives?

The NCEL is looking for the Vendor to propose a strategic media plan that includes a recommendation as to what expenditures should be made in each geographic area of the State of North Carolina.

(b) Will budgets be released by DMA or county?

No, a budget in its entirety will be provided to the Successful Vendor by the NCEL.

17. (a) What is the acceptable range for post buys?

Ninety-five (95) to one hundred and five (105) is the acceptable range for post buys.

(b) Industry best practices for post buy analysis allow for an index of 90 – 100. Does the NCEL have a specific standard they are looking for in post buy compliance?

The standard set by the NCEL for a post buy analysis is that the Successful Vendor actually delivers by quarter ninety-five percent (95%) to one hundred five percent (105%) of their estimated audience (ratings) by market, by station.

18. Can you send the Exhibit A, Proposed Contract in a word document so that it can be electronically red-lined?

A Microsoft Word version of the current version of the Proposed Contract (including any clarifications provided by these Answers) has been placed on the NCEL Website to facilitate the Vendors providing a redline showing any of their suggested changes. Any suggested changes (deletions, additions or moves) made to the proposed NCEL's latest version of the Proposed Contract must be clearly indicated in any submission by a Vendor (preferably in color).

19. (a) In reference to page 19, 3.9: How is the advertising budget set?

The advertising budget is established by the NCEL on a fiscal year basis. As the NCEL evolves, the budget may change from year to year. As stated in the RFP, the Successful Vendor will receive the fixed percentage fee for all services rendered by it. This fixed percentage fee will be paid on approved and incurred actual advertising expenditures. The fixed percentage fee will stay the same throughout the duration of the Contract, regardless of the budget amount or actual expenses incurred.

(b) You've indicated that the ad budget is capped at 1% of total revenues. Which means the annual budget would be no more than \$12 million. However, you've anticipated that the budget will actually be \$8 million. What formula will be used on an annual basis to determine the actual ad budget?

See the Answer to Question 19(a).

(c) And will that formula fluctuate throughout the year?

See the Answer to Question 19(a).

20. The agency sealed bid is supposed to be a percentage of the ad budget. (a) By way of example, if the agency compensation proposal is for \$2 million, and the agency commits in the sealed bid to 25% of the \$8 million dollar budget, will the agency be held to the 25% commitment if the budget drops to \$6 million?

See the Answer to Question 19(a).

(b) If the budget goes up, is that increase reflected in the agency's compensation?

See the Answer to Question 19(a).

21. If an agency staffing plan for an \$8 million work load requires \$2 million in compensation (25%), and if the budget for some reason drops to \$6 million, will the agency be allowed to reduce services commensurate with the reduction in budget?

No, the Vendor's proposed fixed percentage fee should cover all services requested of the Vendor in the RFP and the Contract.

22. (a) Page 21, In order to more accurately include a number in our costs for trademark/service mark searches is it safe to assume that there will be 70 searches that must be conducted for instant win game names?

No.

(b) Or will the game vendor be responsible for trademark searches for the games?

Yes.

23. (a) Does the NCEL have a preferred bond form?

No.

(b) Financial institutions and Insurance agencies have said that you can not be issued a payment bond without an executed underlying contract. Will the NCEL accept a bid bond for \$600,000 instead of the \$150,000 bid bond?

Yes. If a Vendor is not able to procure a Five Hundred Thousand Dollars (\$500,000) Payment Bond as required by Section 3.20(c) of the RFP without a signed Contract, the NCEL will accept a bid bond in the amount of Six Hundred Thousand Dollars (\$600,000). However, in such case, contemporaneously with the execution of the Contract, as required by Section 3.20 of the RFP, the Successful Vendor shall provide a payment bond or letter of credit from a bank or credit provider acceptable to the NCEL in the amount of Five Hundred Thousand Dollars (\$500,000), AND a performance bond or letter of credit from a bank or credit provider acceptable to the NCEL in the amount of not less than Five Hundred Thousand Dollars (\$500,000).

24. (a) You've asked for financial statement for the last three years, which, given that 2005 is not done yet, will be 2002, 2003, 2004.

Financial statements should be provided for the last three (3) completed fiscal years.

(b) You've also asked for \$2000 per partner, subsidiary, or parent corporation. There are currently three that are a part of our company. However, we had two other partners/subsidiaries that will be included in our financial reports that are no longer a part of the reported financial information for our company. Are we correct in assuming that we must submit \$6000 for the three companies that are currently a part of our organization?

We do not understand the question due to the confusing references to “partner/subsidiaries” who/which are two different things. If you still have questions as to how to calculate the required payment per RFP Section 3.20, we respectfully suggest you do so with your legal counsel who will be able to help explain the differences between parent companies, subsidiaries, joint venturers and identified individuals. If a Vendor submits a Record Check Fee that is too high, any excess amount will be refunded to the Vendor.

25. Over what time period must we disclose litigation or legal matters? (ref. Page 27, 4.6)

The Vendor's disclosure should permit the NCEL to undertake a careful and thorough investigation of the integrity and past and present practices of each Vendor. For example, G.S. § 18C-151 (a)(5) and G.S. §§18C-152(c)(5) and (6) (which are specifically referenced in Section 2.11.3) require disclosure of matters which may no longer be open or pending, and which in some cases may have occurred ten (10) or more years ago. Complete disclosure in this area is critical and should not be taken lightly. If in doubt, disclose it.

26. On page 33, 5.8.3.2 c: by merchandising strategies do you mean value-add such as sponsorships, radio remotes, etc?

Yes.

27. In order to forecast creative hours for the annual fee, agencies will need to know how many campaigns should be included in the workload. Given that there may be 70 or more instant games in a year (plus Powerball campaigns), how many separate campaigns should we assume will need creative development and production for each year? This can be provided to us as campaigns or total TV spots, radio spots and outdoor boards you expect an agency to produce each year.

The NCEL will not advertise all seventy (70) instant games. The NCEL anticipates that there will be approximately sixteen (16) to twenty (20) campaigns each fiscal year.

28. For the finalist assignment, will the agencies be provided the specific four games and their themes or will the agencies be expected to choose the launch games from the broader (70+?) list?

The NCEL is not asking for creative development for the four (4) specific instant ticket start-up games as a part of the final assignment. We are asking for an advertising and media plan which includes an overall marketing summary and strategy. If the Vendor desires to provide creative development, we recommend researching the various games from other lottery states that correspond to the price points listed in the assignment as stated in the RFP.

29. Will the cost to print and ship all point of sale for the 5,000 retail outlets be included in the \$8 million ad budget? (Page 35, i)

Only those items that are produced by the Successful Vendor will be included in the budget.

30. Will three bids be required on every job regardless of the amount (example: triple bid estimate for a \$100 purchase) or just for projects above a certain dollar figure (example: \$5,000)?

As stated in Section 5.9.2(q)(i) of the RFP, the levels of jobs to be bid will be determined by the NCEL.

31. Agencies must pay media vendors within 30 days. By following NCEL's guidelines, agency will typically get a notarized affidavit within seven days after schedule has run (example: February 7 for January but can be delivered sooner electronically...which does not appear to be acceptable to NCEL.) Assuming we have invoices to NCEL by the 10th of the month, will NCEL pay agency within 15 days to ensure agency can pay media vendors by the 30th day? (Page 36, q, viii)

The NCEL will make every effort to pay the Successful Vendor as soon as possible as set forth in the RFP and Contract for timely and accurately submitted invoices.

32. (a) Since research projects are not listed and will be requested along the way, can the researchers' time associated with executing that work be billed on a project-by-project basis?

No, with respect to any portion of a research project performed by the Successful Vendor, its compensation is included in its fixed percentage fee.

(b) If not, can you tell all agencies how many/what type of reports to assume so bids can be apples-to-apples? (Page 37, t)

See the Answer to Question 32(a).

33. And, should we assume that research costs excluding time (outside vendors) will be included in the \$8 million production fee, not the agency compensation?

See the Answer to Question 32(a). The Successful Vendor's time will not be billable as a separate item but will be covered under the fixed percentage fee paid to the Successful Vendor.

34. Attachment C, Certification: Your certification statement says that we must certify to the NCEL that all team employees have filed their tax returns. This could be interpreted as having a single agency employee verify that tax returns have been filed, which is difficult/impossible. Will the NCEL accept certifications by employees to agency management that they have filed tax returns?

As stated in Section 4.5 of the RFP:

“A Vendor must complete and submit as part of its Proposal the Contract compliance and Financial Disclosure Form, included as Attachment C and made a part hereof.”

As also stated in Attachment C:

“For any subcontractor that comprises at least twenty-five (25%) of the cost of the Vendor's Proposal (a “25% Subcontractor”), disclose all the same information for each 25% Subcontractor as if each 25% Subcontractor were itself the Vendor. In addition, disclose all of the same information for each member of a joint venture, a strategic partnership or a prime contractor team as if each such joint venturer, strategic partner or member of a prime contractor team were itself the Vendor. (Vendor and all members of a joint venture, a strategic partnership or a prime contractor team are sometimes herein referred to as “Vendor Team.”)

35. Website design and maintenance seems to be missing from this scope of work. Is it accurate to assume that creating and managing the NCEL lottery website does not have to be included in the flat fee?

Website design and maintenance is not missing from the scope of work, as it is not part of the scope of work.

36. (a) You ask us to cover all costs for traveling to conferences, sales meetings, and retailer visits. Can you estimate the frequency of such travel?

No.

(b) How often do you anticipate that it will require out of state travel?

The NCEL anticipates that there will be approximately two (2) trips outside of North Carolina per year.

37. Must trademark and service mark searches for concepts be conducted prior to the NCEL expressing interest in concept, or can it be done once you express an interest? Searching every presented concept would obviously cost more than searching viable concepts.

Trademark and service mark searches for concepts should be conducted by a Successful Vendor only after serious interest has been expressed by the NCEL.

38. May we submit a bid while initiating a formal audit during the RFP process? Since tax season has started, a formal audit takes 6-10 weeks, which precludes us from meeting the due date. As a privately held corporation, our financial statements are compiled by our certified public accountant firm in accordance with Statements on Standards for Accounting and Review issued by The American Institute of Certified Public Accountants. While they are not audited, these statements have been acceptable to every state and Federal agency that we have bid – including other state lotteries.

The NCEL will accept and review financial statements that are reviewed (rather than audited) provided that: (1) all of the financial statements are warranted as being accurate and complete by the Chief Financial Officer, Chief Executive Office, Chief Operating Officer or similar senior executive of the Vendor; and (2) the review is performed and financial statements issued by an independent accounting firm in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

39. With the lottery's strong cash flow, why are you requesting that the agency finance your media purchases – especially as this is not the norm for other North Carolina state departments?

It is very common in the lottery industry that the Successful Vendor bill the lottery after the spots have run. The NCEL will require proof of performance before any invoice will be paid.

40. You ask us to cover the cost of conducting market research studies. (a) As market research costs are generally considered third-party expenses (other than agency management and oversight), will the agency be entitled to reimbursement for these expenses (other than agency management and oversight time)?

Yes. See the Answer to Question 33.

(b) For example a vendor cost for focus groups range from \$4500 to \$7000 each. Telephone surveys of 400 people could start at \$8000. Web surveys are priced at \$2500. Can you estimate the types of and frequency of research you envision so pricing can be accurate?

No such estimate is available at this time. However, no such estimate is necessary for the Vendor to submit its Proposal since all third party research costs will come out of the NCEL's advertising budget and the Successful Vendor will receive its fixed percentage fee of the actual advertising expenditures.

41. If our proposed cost bid is based on a stated amount of marketing dollars to be expended, what happens if the Lottery under- or overspends the total annual fiscal year advertising budget?

The Successful Vendor will be paid the fixed percentage fee on the amount of funds actually spent on advertising during the fiscal year as determined by the NCEL.

42. On Page 27 under paragraph 4.7 "Subcontractors" it states that if at least 25% of the cost of a Vendor's Proposal is to be performed as a subcontractor, then the subcontractor must itself complete the information as a vendor. Does this same stipulation apply if another advertising firm will be partnering with a vendor to provide a portion of the on-going services but that portion does not represent at least 25% of the cost?

If it is partnering with the Vendor, then it must comply with all disclosure obligations set forth in the RFP, including Sections 4.5, 4.6 and 4.7. If it is a less than twenty-five percent (25%) subcontractor, then as RFP Section 4.7 provides, it does not need to include those additional disclosures applicable to twenty-five percent (25%) or more subcontractors.

43. Regarding the Pricing Formula noted on Page 42 under paragraph 6.2, (a) can you explain what the NC Education Lottery expects from the winning agency regarding the creative development.

Creative time is not billable but is included in the fixed percentage fee paid to the Successful Vendor. Also, see Answer to Question 43(b) below.

(b) Does the NC Education Lottery expect the winning agency to pay for production of print and broadcast materials as part of its fee or will Broadcast and Print Production Estimates be submitted by the winning agency that include the estimated costs for creative time and materials charges?

Estimates will be submitted to the NCEL for payment approval for all projects, including broadcast and print production work. This third party work is paid out of the advertising budget, not out of the Successful Vendor's fixed percentage fee. Successful Vendor time, including creative time, will not be billable to the NCEL and is included in the Successful Vendor's fixed percentage fee.

44. (a) Should all production costs be incorporated into the cost proposal as a percentage of the annual eight million dollar budget?

See the Answer to Question 19(a).

(b) What about trademark searches, travel to NECL-related activities, and market research?

See the Answers to Questions 10, 22(a), 22(b) and 32(a).

45. It appears that only the finalists will need to prepare the finalist case study (5.7.2) which is the 13-week assignment for the NCEL. Is that correct?

Yes.

46. After the Feb. 1 announcement of finalists, will there be another opportunity for those finalists to ask questions?

No.

47. Regarding Consent form attachment E, do all members of the team need to sign or strictly officers and senior team members?

At a minimum, as stated in Section 4.5 of the RFP, the following individuals must sign Attachment E:

(i) if the Vendor is a corporation, the officers, directors and each stockholder in the corporation; however in the case of owners of equity securities of a publicly traded corporation, only those names and addresses of those known to the corporation to own beneficially five percent (5%) or more of such corporation's securities need be disclosed, as well as the same information for a parent corporation of such Vendor corporation if the parent corporation's shares are publicly traded; (ii) if the Vendor is a trust, the trustee and all persons entitled to receive income or benefits from

the trust; (iii) if the Vendor is an association, the members, officers and directors; (iv) if the Vendor is a partnership or joint venture, all of the general partners, limited partners or joint ventures; and (v) for any Vendor, any person who can exercise control or authority, or both, on behalf of the Vendor.

If in doubt, they should sign and submit the Attachment.

48. Is there a limit on the number of creative exhibits that can be provided as part of the two requested case studies?

No.

49. Can TV and radio spots be submitted on DVD/CD format?

Yes.

50. Please clarify how a minority-owned vendor who will not be subcontracting any work out clearly indicates that on the EBO forms/affidavits provided.

The Vendor should include its name and Minority Category in the first box on the Form entitled “Identification of Minority Business Participation” on Attachment F and the Vendor should include a statement on Attachment F that it will be providing all of the services under the Contract. The Vendor should also complete Affidavits B, C and D which should make their status clear.

51. While the RFP is for advertising and related programs, it appears that public relations and Web site development are out of the scope of this RFP. Please confirm that this is correct.

Yes, public relations and web site development will be handled by the NCEL’s Communications and Marketing Departments.

52. It is expected that market research for benchmarking purposes be conducted prior to the April 5, 2006 launch?

No.

53. Please confirm whether Powerball (tentative start on June 14) should be part of the thirteen-week general market advertising plan along with the launch of the NCEL and the introduction of its first four instant games.

Yes.

54. In NASPL Advertising Standards, under “Content” point 4. states that “Responsible play public service or purchased media messages are appropriate, especially during large jackpot periods.” Should funds be allocated for this purpose during the thirteen-week general market advertising plan, assuming Powerball has started?

If the jackpot reaches One Hundred and Fifty Million Dollars (\$150,000,000), a “play responsibly” message will be rotated into the regular buy.

55. Section 4.8 indicates that a Vendor must submit "a copy of its last three (3) years financial statements that have been audited by an independent public accounting firm." Because of our strong financial position, our financial institution only requires us to have a "Review" of our financial statements by an independent accounting firm. The review is performed by an independent accounting firm in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Essentially, a Review is similar in scope to an Audit except third party verification is not required. Will the NCEL accept independently Reviewed financial statements?

The NCEL will accept and review financial statements that are reviewed (rather than audited) provided that: (1) all of the financial statements are warranted as being accurate and complete by the Chief Financial Officer, Chief Executive Office, Chief Operating Officer or similar senior executive of the Vendor; and (2) the review is performed and financial statements issued by an independent accounting firm in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

56. We have not been able to locate the “Regulations, Policies and Procedures” on the NCEL Web site. Can you please clarify its location or send it to us?

As the NCEL’s regulations, policies and procedures are completed, they will be posted on the NCEL website and/or made available to the Successful Vendor.

57. Section 5.8.1 Assignment. (a) Is there a separate budget or contract for Public Relations/Events/Promotions associated with promoting the NCEL launch?

No.

(b) Is printing and shipping of Retailer point-of-sale materials included as part of the \$1.9MM budget?

The printing and shipping of Retailer point-of-sale materials is included in the budget for such items that are produced by the Successful Vendor.

(c) Are talent payments included as part of the \$1.9MM budget?

Yes.

58. Section 5.9.2 Vendor Responsibilities, q, viii. (a) Please clarify your definition of a “media flight”.

Only for the purpose of a definition under Section 5.9.2 of the RFP, “Media flight” should be defined as media running within a given month.

(b) Are we to assume that a media flight is defined as media running within a given month and therefore NCEL would make payment to the advertising agency on a monthly basis for advertising that has run during that month?

See the Answer to Question 58(a).

59. (a) Would you please clarify your requirement to report monthly media spending by county, per Vendor Responsibilities, 5.9.2 (w)?

The Successful Vendor and the NCEL will together develop specific reporting processes to be followed.

(b) Our media department typically reports spending by Designated Market Area (DMA). As you are aware, broadcast media vendors typically cover multiple counties. Are you therefore requiring a pro-rated expenditure calculation based on delivery by county for each vendor, or may we allocate 100% of the expenditure within the home county of each vendor purchased?

See the Answer to Question 59(a).

60. (a) Under Vendor’s Media Plan, 5.8.3.2, please clarify what you mean by “media merchandising strategies.”

“Media merchandising strategies” means added value and promotional activities negotiated with media partners at the time the initial buy is negotiated.

(b) Does this refer to point of purchase materials or media stretch/added value, or something else entirely?

This refers to added value and promotional activities.

61. (a) Regarding the background checks, please clarify to what extent we need to include entities and individuals.

As stated in Section 4.5 of the RFP, “...the Authorization for Investigation Form and Consent Form shall authorize access to the criminal history and backgrounds of the following persons, as well as the Vendor, as applicable: (i) if the Vendor is a corporation, the officers, directors and each stockholder in the corporation; however in the case of owners of equity securities of a publicly traded corporation, only those names and addresses of those known to the corporation to own beneficially five percent (5%) or more of such corporation’s securities need be disclosed, as well as the same information for a parent corporation of such Vendor corporation if the parent corporation’s shares are publicly traded; (ii) if the Vendor is a trust, the trustee and all persons entitled to receive income or benefits from the trust; (iii) if the Vendor is an association, the members, officers and directors; (iv) if the Vendor is a partnership or joint venture, all of the general partners, limited partners or joint ventures; and (v) for any Vendor, any person who can exercise control or authority, or both, on behalf of the Vendor.”

(b) We are owned by a parent company and have three principals in our own firm. Is there a need to include shareholders with an interest of five percent (5%) or more in our parent company?

Yes, in addition to all others required by the RFP.